

Education Department Fails Accounting 101

WEDNESDAY, MAY 24, 2000

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
TASK FORCE ON EDUCATION AND TRAINING,
Washington, DC.

The Task Force met, pursuant to call, at 10:22 a.m. In room 210, Cannon House Office Building, Hon. Peter Hoekstra (chairman of the Task Force) presiding.

Mr. HOEKSTRA. Good morning. The task force will come to order.

Let me just give a little bit of an overview, and then Ms. Rivers has a comment.

Thank you for coming this morning as we take a look at the financial management practices at the Department of Education and the results of the Department's two failed audits.

This is the third time that a number of today's witnesses will be testifying before Congress on these issues. However, it is the first time that the Budget Committee will have the opportunity to hear about the potential, and even documented, fraud, waste and abuse at the Department. While we already know that the Department has been unable to produce a clean audit for fiscal years 1998 and 1999, a few recent incidents illustrate the effects of this financial mismanagement.

Recently, a Bell Atlantic employee pleaded guilty to conspiring with Department of Education employees to steal more than \$1 million in equipment and in false overtime billing. Items were ordered under a Bell Atlantic contract but delivered to the homes of Department employees and their families. These items included computers, telephones, televisions and compact disk players.

That is not all. In return for allowing the Bell Atlantic employees to bill the Department of Education for overtime never performed, these contractors performed personal errands for the Department employee, even driving to Baltimore to get her crab cakes for lunch.

This scheme went on for at least 2 year, in part because the Department of Education does not have the proper management procedures in place to track inventory. In 1985, in an Inspector General report, the Department was criticized for having weak controls over the safeguarding of office equipment and the recording of items received. In November 1994, the IG issued an Investigation Advisory Program Report that described deficiencies in the Department's property management and provided 21 recommendations for improvement. The IG provided follow-up reports in March 1997, October 1997, November 1998, that concluded that the weaknesses

still persisted. So it is not surprising that we see these kinds of difficulties.

This theft ring may only be the tip of the iceberg. According to the Inspector General, of the 139 recommendations made by auditors in the past 5 years, 111 remain open, and only 28 are closed. Who knows what kind of waste or fraud may be occurring in these areas due to the inaction of the Department of Education?

Let's take a close look at some of the other management problems at the Department. For at least 3 consecutive fiscal years, the Department has made duplicative payments to grantees. Last December alone, the Department issued duplicate payments to more than 52 schools totaling more than \$6.7 million.

In one recent academic year, \$177 million in Pell grants were improperly awarded because students failed to meet income requirements. More recently, the Department awarded 39 Jacob Javits scholarships to students who were supposed to be alternates for the award. What was the cost of this mistake? Nearly \$4 million.

The Department of Education has a grantback account that in 1996 contained \$750 million. Very little of this money was legitimately in the account and had been returned to the Department by grantees. The Department has still not been able to document where the money in the grantback account came from and where it is supposed to go.

Is a clean audit an unreasonable goal for a Federal agency? No. In fact, many Federal agencies are able to produce a clean audit year after year. A clean audit and proper financial controls are the first steps toward preventing fraud, waste and abuse. Any business owner will tell you the importance of a clean audit is to maintain the confidence of investors and to prevent stock from being delisted.

Actions have consequences. So does inaction. What I hope to make clear today is that the Department's failure to address its financial management problems can lead directly to fraud, waste and abuse. For at least 15 years the Department failed to address the lack of controls over inventory and now we have documented theft in this area.

We know what needs to be done. The Department of Education must make financial stewardship one of their top priorities. Until it does, the taxpayers' investment in the education of America's youth is not going to reap anything close to its maximum return. Thank you.

Ms. Rivers.

Ms. RIVERS. Thank you, Mr. Chairman. I join you in thanking our speakers for attending today. I am very anxious to hear their views on the long-standing problems at the Department of Education.

I was interested when I saw Ms. Jarmon's testimony that this has gone on for many years and there has been a 10-year effort to reform but we have not made the progress that we would hope. I would hope that we not just hear the problems that exist but also solutions that can be pursued to bring the Department of Education into compliance. Particularly I would be interested in hearing any legislative solutions that have to be put in place in order

to help the Department of Education do what it needs to do. I look forward to your testimony.

Mr. HOEKSTRA. Thank you.

Mr. Clement.

Mr. CLEMENT. Thank you, Mr. Chairman and Ms. Rivers, Mr. Holt, panel. It is a pleasure to have you here today.

These are serious charges and serious allegations. And being a former college president—I was a college president for 4½ years before I was elected to the United States Congress so I worked on education issues for a long, long time. I worked with Secretary Riley on many education issues.

We sure want to correct these problems. I believe in the Department of Education. In many ways, it has served us well, but we surely want to bring about reform. We surely want to operate efficiently. And taxpayers expect us to make sure that every dollar is accounted for and that those that are going to receive help receive the help under the guidelines and restrictions we have. I want to know what the problem is so we can correct it once and for all. Hopefully, now we have turned the corner.

Thank you.

Mr. HOEKSTRA. Mr. Collins, do you have a statement?

Mr. COLLINS. No.

Mr. HOEKSTRA. Mr. Holt.

Mr. HOLT. Thank you, Mr. Chairman.

Of course, we have some responsibility as stewards here; and we want to make sure that taxpayers' money is well spent; and to the extent that there has been waste or mismanagement we want to get to it. But the problem is not so much because it is taxpayers' money. The problem is because it is dealing with our most important undertaking as a society, which is the education of our children. We want to make sure that is done in the best possible way. I do hope that, as this group moves forward and as the witnesses provide us information, the emphasis will not be on fingerpointing but will be on ways that we can provide an efficient, excellent education for all our children.

Mr. HOEKSTRA. Thank you very much.

With us this morning we have Edward Moore, who is the President of Edelman Financial Services, Inc. We have Daniel Murrin, who is a partner with Ernst & Young; Gloria Jarmon and Gary Engel, who are with GAO; and Lorraine Lewis, who is the Inspector General of the Department of Education.

Welcome to each of you today.

**STATEMENT OF EDWARD P. MOORE, CFP, PRESIDENT,
EDELMAN FINANCIAL SERVICES, INC.**

Mr. HOEKSTRA. We will begin with Mr. Moore.

Mr. MOORE. Good morning. I am honored to be appearing before this task force today. It is very encouraging to see that the task force has sought input from someone like me, someone who works every day to help both individual consumers and corporations regarding their personal finances and money management.

As a father of two children enrolled in public elementary schools, I see firsthand the challenges, successes and failures of our public education system at the local level. But I am not here today to re-

view all that faces the Department of Education, there are others here with greater expertise in that area than me.

Instead, I speak to you today as a certified financial planner, one whose primary role is to show American families and businesses how to secure their financial futures. As the President of Edelman Financial Services, Inc., in Fairfax, Virginia, I oversee a planning practice that is perhaps the largest in the Washington, D.C., metropolitan area, and along with our firm's founder and chairman, Ric Edelman, I appear frequently on local and national media to share our knowledge with the consumers from coast to coast. Indeed, consumer education in the field of personal finance is a primary focus of our activities.

And that is what brings me here today. I was asked to give the task force the answer to one fundamental question: Do the finances of a government entity—in this case the Department of Education—bear any similarity to the finances of an individual or corporation? To learn the answer, I will discuss the importance of following the basics of financial planning for both an individual and a corporation.

For an individual or family, the financial planning process involves the following basic, fundamental steps:

First, we help an individual identify their goals and objectives. At what point would they like to retire? What income do they need at that time? Do they want to send their kids to college, buy a home, build a nest egg? We help them identify, clarify and then define what they want for the future.

Next, we help them identify the resources they have available. How are they currently spending their money? What are they saving? Where is that money being invested? Do they have retirement plans with their employers? Are they participating to the maximum? We help them identify what they currently have access to and what they are currently taking advantage of.

Next, we help them direct their actions. As financial planners, we make specific recommendations in all areas of an individual's financial life. For example, how can they maximize the potential that is available to them? How can they protect their family and build toward the future?

Planning and budgeting are keys to financial success, whether for a 10-year-old child with a weekly allowance or corporate America, responsible who not just to one, but to many. The principles are the same, only the magnitude of the process differs.

Managing the finances of a business is equally important. When we are examining companies for our clients to consider as investments, the manner in which it is run financially is one of the key elements of our investigation. If a company has questionable financial records, our clients are told to steer clear of that company.

Although it is not always the case, in the private sector today clean financial records are generally assumed. Companies that are publicly traded on the stock market are required to have their financial records audited annually to assure that they are following generally accepted accounting principles. As long as a company has clean records, we are able to do our analysis, based on the company's strengths and weaknesses, to determine if we feel it is an appropriate investment for our clients.

A recent case in point of a company that did not manage its finances effectively is a Virginia company just outside the Washington Beltway. This company, which has been in the news quite a bit recently, saw its stock price drop from over \$300 a share to under \$25 a share in just the last 2 months. That means if an investor had \$100,000 invested in this company in March, they now have less than \$10,000. The primary reason for the 92 percent drop in that company's stock price was the way in which their books were kept. They did not track their income and expenses in a way that was acceptable to regulators. Tracking finances is one of the most fundamental aspects of running a business, and this company failed miserably. In this case, bad books equals a bad investment.

Does any of this pertain to the Department of Education? Absolutely. As with an individual or corporation, the Department does not have unlimited funding each year, so it must pay close attention to its finances. As a taxpayer, financial adviser and father of two children in elementary school, I think it is reasonable to ask a Federal agency to keep clean and complete records of where its money goes. By keeping clean books and accurate records, the Department and Congress can continue actually evaluating where it is spending its money to help it make better decisions in the future—decisions that will further improve the quality of education that our Nation's children receive. Higher quality education means a better, stronger America.

By carefully managing its money, the Department of Education can deliver maximum benefits to our Nation's children, while spending less money than it otherwise might. Such savings could translate to smaller budgets, which result in less government spending. This can bring about lower taxes for working-class citizens and greater economic prosperity for all Americans. But if the Department of Education is not in control of its spending, if the Department is not concerned with where its money is going, then its effectiveness shrinks, it opens itself up for possible fraud or abuse, with fewer benefits reaching our children. In that case, no one wins.

Thank you again for giving me the honor of speaking with you here today.

Mr. HOEKSTRA. Thank you.

[The prepared statement of Edward Moore follows:]

PREPARED STATEMENT OF EDWARD P. MOORE, CFP, PRESIDENT, EDELMAN FINANCIAL SERVICES, INC.

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- Identify resources available: How are they currently spending their money? What are they saving? Where is that money being invested? Do they have retirement plans with employers? Are they participating to the maximum? We help them identify what they are currently have access to and what they are currently taking advantage of.

- Direct actions: As financial planners, we make specific recommendations in all areas of an individual's financial life; for example, how they can maximize the potential that is available to them, protect their family, and build toward the future.

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Does any of this pertain to the Department of Education? Absolutely. As with an individual or corporation, the Department does not have unlimited funding each year, so it must pay close attention to its finances. As a taxpayer, Financial Advisor, and father of two children in elementary school, I think it is reasonable to ask a Federal agency to keep clean and complete records of where its money goes. By keeping clean books and accurate records, the Department and Congress can continually evaluate where it is spending its money to help it make better decisions in the future—decisions that will further improve the quality of education that our nation's children receive. Higher quality education means a better, stronger America.

By carefully managing its money, the Department of Education can deliver maximum benefits to our nation's children, while spending less money than it otherwise might. Such savings could translate to smaller budgets, which result in less government spending. This can bring about lower taxes for working-class citizens and greater economic prosperity for all Americans. But if the Department of Education is not in control of its spending, if the Department is not concerned with where its money is going, then its effectiveness shrinks, it opens itself up for possible fraud or abuse, with fewer benefits reaching our children. In that case, no one wins.

Thank you again for giving me the honor of speaking to you here today.

Mr. HOEKSTRA. Mr. Murrin.

**STATEMENT OF DANIEL J. MURRIN, PARTNER, ERNST &
YOUNG LLP**

Mr. MURRIN. My name is Dan Murrin. I am a partner with Ernst & Young LLP and national director of public sector services for that firm. I have been in public accounting for 20 years, with a specialty in the Public Sector—Federal Government.

The Education Task Force of the Committee on the Budget has requested that Ernst & Young testify with respect to our recommendations for improving the financial management at the Department of Education; and our recommendations which were first given on March 1, 2000, before the Committee on Education and the Workforce's Subcommittee on Oversight and Investigations.

The Office of Inspector General, for the Department of Education, engaged Ernst & Young to conduct the audits of the Department's fiscal year 1998 and 1999 financial statements.

My testimony will focus on recommendations for improving financial management at the Department of Education, provide information on areas that may warrant further analysis as well as suggestions for additional work at the Department that may be required.

By way of an overview of our fiscal year 1999 audit reports, and we testified on this on March 1, with respect to the Report of Independent Auditors for the Department of Education for fiscal year 1999, Ernst & Young issued a qualified opinion on four of those statements and disclaimed an opinion on the fifth statement.

Regarding the Report on Internal Control, we detailed four material weaknesses and four reportable conditions. We included a total of 24 recommendations in the Report on Internal Control to assist the Department in addressing its internal control deficiencies.

We had some additional recommendations for improving financial management drawn from those reports and discussed to some extent in our testimony on March 1. The Department has said they are moving forward with preparing interim financial statements. We have recommended that, they have an independent review of those interim financial statements performed.

We have emphasized reconciliations as being a critical aspect of internal control and suggested that they be performed monthly and subject to follow-ups.

The Department has ongoing efforts to identify duplicate payments. We have suggested that an independent review be performed of this process once it has been concluded so that we can identify whether there are any additional controls that should be implemented as a result of these projects. It is our understanding that the Office of Inspector General is also looking at this issue.

We understand that the Department plans to complete a comprehensive physical inventory of its furniture and fixtures and is currently conducting an inventory of its telecommunications and computer equipment. We have suggested that an independent process be involved to review the results of that.

The Department may also benefit from independent confirmations of financial data with grant recipients at the award level—for example, available funds, obligations and cash drawdowns.

The Department may also want to consider ongoing efforts to review the accuracy of data in the National Student Loan Data System.

In addition, in our reports we did make two overarching recommendations. We have recommended that the Department review the current organizational structure to update and more clearly define roles and responsibilities and to ensure that financial reporting objectives established by management are being achieved. Such a review may also include evaluating the recruiting, training and retention of accountants and financial management personnel, which is critically important.

We recommend that the Department develop an implementation plan for replacement of the general ledger software package to ensure that the transition will occur in a timely and documented manner. And, finally, we also recommend that the Department ensure that the new general ledger package will meet its financial reporting needs.

I will be pleased to answer any questions that you may have.
[The prepared statement of Mr. Murrin follows:]

PREPARED STATEMENT OF DANIEL J. MURRIN, PARTNER, ERNST & YOUNG LLP

INTRODUCTION

My name is Daniel J. Murrin. I am the National Director of Public Sector Services for Ernst & Young LLP, a public accounting firm. I have been in public accounting for over 20 years, with a specialty in the Public Sector—Federal Government. The Education Task Force of the Committee on the Budget has requested that Ernst & Young testify with respect to our recommendations for improving the financial management at the Department of Education which were given on March 1, 2000 testimony before the Committee on Education and the Workforce's Subcommittee on Oversight and Investigations.

The Office of Inspector General, for the Department of Education, engaged Ernst & Young to conduct the audits of the Department's fiscal year 1999 and 1998 financial statements.

OVERVIEW OF FISCAL YEAR 1999 AUDIT REPORTS

As you may be aware from our prior testimony, regarding the "Report of Independent Auditors," for the Department of Education for fiscal year 1999, Ernst & Young issued a qualified opinion on four of the five required financial statements and disclaimed an opinion on the fifth statement. The "Report on Internal Control," detailed four material weaknesses and four reportable conditions. We included a total of 24 recommendations in our Report on Internal Control to assist the Department in addressing its internal control deficiencies. Our "Report on Compliance with Laws and Regulations" cited noncompliance with the Federal Financial Management Improvement Act (FFMIA), the Information Technology Management Reform Act (the Clinger-Cohen Act), and the Federal Credit Reform Act.

Our Report on Internal Control documents the following eight reportable conditions, the first four of which were material weaknesses:

- Financial Reporting Needs to Be Strengthened (Repeat Condition¹—Material Weakness)
- Reconciliations Need to Be Improved (Repeat Condition—Material Weakness)
- Improvement of Credit Reform Reporting is Needed (Material Weakness)
- Controls Surrounding Information Systems Need Enhancement (Repeat Condition—Material Weakness)
- Documentation Supporting Obligations, Undelivered Orders and Unobligated Balances Needs to be Improved (Modified Repeat Reportable Condition)
- Communication and Coordination Efforts Need to be Improved for Financial Management

¹ Repeat condition means the issue was also included in the FY 1998 Report on Internal Control.

- Documentation Supporting Accounts Payable, Accrued Liabilities and Expenditures Needs to be Improved (Modified Repeat Reportable Condition)
- Reporting and Monitoring of Property and Equipment Needs to be Improved

The four most serious of these weaknesses were: the accounting system's inability to perform a year-end closing process or produce automated consolidated financial statements; the lack of proper or timely reconciliations of the accounting records; failure to manage its financial operations in accordance with the requirements of the Federal Credit Reform Act of 1990; and deficiencies in controls surrounding information systems.

RECOMMENDATIONS FOR IMPROVING FINANCIAL MANAGEMENT

Pursuant to the Task Force's request, my testimony will focus on Ernst & Young's recommendations for improving financial management at the Department of Education. I will provide information on areas that may warrant further analysis, as well as suggestions for additional work that could be performed concerning the Department's financial management. The items identified below are in addition to or an expansion of procedures that were performed as part of our audit.

Interim financial statements—The Department has informed us that it intends to prepare interim financial statements for fiscal years 2000 and beyond. We recommend that the Department also consider conducting a review of the interim financial statements to provide early identification of departures from generally accepted accounting principles (GAAP), if any, that might impact the year-end financial statements, as well as any other issues that could be addressed on an interim basis. This practice of having the interim financial statements reviewed is followed by publicly held companies. The scope of the annual financial statement audit that we have been engaged to perform does not encompass a review of interim financial statements in accordance with the AICPA Statement on Auditing Standards No. 71, Interim Financial Information.

Reinforce reconciliation efforts—Reconciliations should be performed on a monthly basis with regards to (a) Fund Balance with Treasury, including the grantback account; (b) GAPS to FMSS; (c) budgetary to proprietary accounts; (d) accounts payable and related disbursements-in-transit; (e) suspense accounts; and (f) accounts receivable/guaranty agency reserves. As part of the interim financial statement reviews discussed above, the Department may benefit from having additional independent reviews of these reconciliations to improve the accuracy, completeness and timeliness of the reconciliations.

Study duplicate payment issues—The Department has ongoing efforts to identify potential duplicate payments in the grant programs and the direct loan program in order to assess the need for additional controls to prevent occurrences of this nature in the future. We suggest that an independent review be performed of the process that was utilized by the Department to identify potential duplicates and of any additional controls implemented as a result of these projects. The Office of Inspector General has informed us that they are also looking at this issue.

Inventory of Fixed Assets—The Department plans to complete a comprehensive physical inventory count of all fixed assets, including furniture and fixtures. We understand that the Department is currently conducting an inventory of all computer and telecommunications equipment. We suggest that, upon completion of these physical inventories, an independent review of the inventory results be performed to ensure that the process provided a complete and reliable inventory and to assess the significance of any issues identified as a part of conducting the inventory. The Office of Inspector General has informed us that they are also looking at this issue.

Confirm Grant Data—The Department may benefit from independent confirmations of financial data with grant recipients at the award level (such as available funds, obligations, and cash drawdowns). Confirmations would help ensure that the Department's records are in balance with internal records maintained by the grant recipients.

Perform Ongoing Reviews of the National Student Loan Data System (NSLDS)—The Department may want to consider ongoing efforts to review the accuracy of data in its Student Loan Database. NSLDS is a database which includes loan-level data for all student loans. The data is received from many entities which participate in the loan programs, such as the guaranty agencies. Data is used as the basis for determining the loan liability in the financial statements, and to provide information for management analysis and decisions. Because the accuracy and completeness of this data is important for making informed decisions, we suggest that efforts be focused on ensuring that the database continues to be a complete and reliable source of information.

In addition, in our reports to the Department of Education we identified a number of specific actions that the Department could take to further improve its financial management. Several of the more overarching recommendations are as follows:

Assess Organizational Structure—We recommended that the Department review the current organizational structure to update and more clearly define roles and responsibilities, and to ensure that financial reporting objectives established by management are achieved. Such a review may include evaluating the recruiting, training and retention of accountants and financial management personnel.

Assess Financial System Requirements—We recommended that the Department develop an implementation plan for the replacement of the general ledger software package to ensure the transition will occur in a timely and documented manner. In addition, we recommended that the Department ensure that the new general ledger software package will meet its financial reporting needs. The Department will need to give consideration to both short-term and long-term needs.

Grant Liability Estimation Process—We recommended that the Department develop a formal policy to further refine the methodology for estimating the year-end grant liability accrual. Implementation of a policy should facilitate consistency with reporting of financial information, as well as review by management for adherence to the Department's policy.

STATEMENT OF LORRAINE PRATTE LEWIS, INSPECTOR GENERAL, U.S. DEPARTMENT OF EDUCATION

Ms. LEWIS. Mr. Chairman and members of the task force, I appreciate the opportunity to present testimony to you today.

I will address our work in identifying fraud, waste and abuse at the Department. I will discuss the guilty plea of a Bell Atlantic employee working under a service agreement with the Department of Education, Pell grant fraud, and improper student loan forgiveness. I will also discuss the need for an environment with strong internal controls which are necessary to maintain the integrity of the Department's programs.

We are conducting an investigation of individuals who, for approximately 3 years, made equipment purchases with Federal funds for nonbusiness-related purposes, billed the Department for hours not worked and received goods for personal use. Two individuals have pled guilty to their involvement in the case. The first, Joseph Morgan, pled guilty to one count of receiving stolen property. The second, Robert Sweeney, pled guilty to one count of conspiracy and one count of theft of government property. Much of the following information was reported by the U.S. Attorney's Office for the District of Columbia as part of the plea agreement with Mr. Sweeney.

Mr. Sweeney was an employee of Bell Atlantic who had been assigned full time to the Department to install telephone lines and telephones. Mr. Sweeney and a second Bell Atlantic technician reported to a Telecommunications Specialist in the Office of the Chief Information Officer. The Specialist began asking Mr. Sweeney to order materials under the Bell Atlantic service agreement that were unrelated to official Department business. These items began with additional telephones and answering machines. Mr. Sweeney would deliver the items, which were paid for by the Department, to the Specialist, who would then distribute them to co-workers and family members for personal use.

Over time, the Specialist's requests for items began to include more expensive items. For example a 61-inch television was ordered and delivered to the Specialist's son's house. Eight Gateway computers were picked up by Mr. Sweeney and delivered to the Specialist's house or to locations that she designated.

From 1997 to 1999, the Specialist requested numerous items that were unrelated to the service agreement, including computers, printers, computer software, scanners, cordless telephones, a 61-inch television, Palm Pilots, walkie-talkies, compact disk players and many other items. The total cost of these items to the Department was over \$300,000.

Mr. Sweeney also performed numerous personal tasks for the Telecommunications Specialist. In exchange for that assistance with her personal requests, Mr. Sweeney was permitted to falsely claim overtime hours. It is estimated that between January, 1997, and November, 1999, approximately \$634,000 in unworked hours was fraudulently charged to the Department by Mr. Sweeney and the other Bell Atlantic technician.

Our contractors, Ernst & Young, have identified numerous Department internal control deficiencies in their Report on Internal Control for the fiscal year 1999 financial statement audit. A sound internal control environment provides management with a reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition. The lack of a sound internal control environment heightens the risk that the Department will not be able to safeguard its assets and accurately record, process and summarize financial data.

OIG investigations and audits have disclosed patterns of fraud against the Pell grant program. The most common fraud scheme involved ineligible or nonexistent applicants who falsified FAFSAs and other documents to obtain Pell grants for which they or their institutions were not entitled. I have detailed a number of those investigations in my longer statement for the record.

To help combat one of these patterns of Pell grant fraud, the 1998 Higher Education Act Amendments included a provision authorizing the Department, in cooperation with the Treasury Department, to confirm with the IRS key pieces of information on the Federal income tax returns of applicants and their parents. Without specific authorization in the Internal Revenue Code, however, the IRS indicates that it must obtain written taxpayer consent before individual income information may be released to the Department. We recommend that Congress enact any necessary additional legislation to address this matter.

In the interim, the Department just completed the first of two planned test-match studies with the IRS. The Department will use the statistical information from the test match to identify the types of students who are most likely to underreport their income. The Department also intends to use the IRS information to better evaluate the extent of income underreporting and to support its desire to conduct a full-scale data match with the IRS.

OIG audit and investigative work has also identified concerns with the discharge of loans due to disability or death. Since October, 1999, OIG investigative work on fraudulent disability discharges resulted in more than \$1 million in loans being reinstated by the holders of the loans, which is either the Department or the guaranty agency. Again, I have provided some examples in my statement for the record.

In our June, 1999, audit, "Improving the Process for Forgiving Student Loans," we recommended that several steps be taken to

enhance the current discharge determination procedures. The Department modified its disability form to incorporate our recommendations, and OMB approved that form. Also, the Department now requires that a death discharge be based only on an original or certified copy of the death certificate.

In order to identify fraudulent death discharges, we conducted a data match with the Social Security Administration's Death Index to identify persons who received loan discharges based upon death but who do not appear in the Death Index. Working with a sample of these data and with information filed by those who obtained substantial discharges from Sallie Mae and a number of guaranty agencies, our investigators are pursuing leads generated by the match. In the area of disability discharge fraud, we are working with the guaranty agencies to identify potential fraud cases and following up on leads developed from the data.

A key factor in improving accountability and minimizing operational problems within the Department is the implementation of appropriate internal controls. Recently, GAO updated its standards for internal control in government. The GAO standards address the areas of control environment, risk assessment, control activities, communication and monitoring.

Currently, we are reviewing existing internal controls over the procurement of goods and services. We are conducting interviews with procurement personnel and senior managers in each principal office within the Department and performing transaction testing to verify the Department's internal control procedures. To date, we have found internal control deficiencies in the Department's use of the government purchase card and third-party checks. At the completion of our review, we will have delivered an individual report to each principal office and a report containing summary recommendations to the Department.

Ultimately, the design and implementation of any internal control must be based on an analysis of costs and benefits. Even well-designed and implemented internal controls cannot provide absolute assurance against fraud, waste, and abuse. There always will be factors such as human mistakes and acts of collusion that will be outside the control or influence of management. That is why we need to remain vigilant and maintain a credible deterrence through, among other things, a regular program of management reviews, an active hotline function, and vigorous audit and investigative operations.

I am happy to answer any questions that you may have.

Mr. HOEKSTRA. Thank you.

[The prepared statement of Ms. Lewis follows:]

PREPARED STATEMENT OF LORRAINE LEWIS, INSPECTOR GENERAL, U.S. DEPARTMENT OF EDUCATION

Good morning, Mr. Chairman and members of the Task Force. I appreciate the opportunity to present testimony to you today. I will address our work in identifying waste, fraud and abuse at the Department of Education. Specifically, I will discuss the recent guilty plea of a Bell Atlantic employee working under a service agreement with the Department of Education, Pell grant fraud and improper student loan forgiveness. I will also talk about the need for an environment with strong internal controls, which are necessary to maintain the integrity of our Education programs.

INVENTORY CONTROL CASE

We are conducting an investigation of individuals who, for approximately 3 years, made equipment purchases with Federal funds for non-business related purposes, billed the Department for hours not worked, and received goods for personal use. At present, two individuals have pled guilty to their involvement in the case. The first, Joseph Dennis Morgan, pled guilty to one count of receiving stolen property. Mr. Morgan illegally received approximately \$14,000 in electronic equipment since 1998. The second individual, Robert J. Sweeney, pled guilty to one count of conspiracy and one count of theft of government property. Much of the following information was reported by the U.S. Attorney's Office for the District of Columbia, as part of the plea agreement for Mr. Sweeney.

Mr. Sweeney was an employee of Bell Atlantic who had been assigned full-time to the Department to install telephone lines and telephones. Mr. Sweeney and a second Bell Atlantic technician reported to a Telecommunications Specialist in the Department's Office of the Chief Information Officer. Approximately 3 years ago, the Department's Telecommunications Specialist began asking Mr. Sweeney to order materials under the Bell Atlantic service agreement that were unrelated to official Department business. These items began with additional telephones and answering machines. Mr. Sweeney would deliver the items, which were paid for by the Department, to the Telecommunications Specialist, who would then distribute them to co-workers and family members for personal use.

Over time, the Telecommunications Specialist's requests escalated and began to include more expensive items. For example, a 61-inch television was ordered under the Bell Atlantic service agreement and delivered by Mr. Sweeney and another Department employee to the Telecommunications Specialist's son's house. Additionally, eight Gateway computers ordered from Bell Atlantic were picked up by Mr. Sweeney and delivered to the Telecommunications Specialist's house or to locations that she designated.

Overall, from 1997 through 1999, the Telecommunications Specialist requested numerous items from Bell Atlantic that were unrelated to the service agreement, including computers, printers, computer software, scanners, cordless telephones, a 61-inch television, Palm Pilots, walkie-talkies, compact disc players, and many other items. The total cost of these items to the Department was over \$300,000.

Mr. Sweeney also performed numerous personal tasks for the Telecommunications Specialist.

In exchange for Mr. Sweeney's assistance with the Telecommunications Specialist's personal requests, Mr. Sweeney was permitted to falsely claim overtime hours. For example, Mr. Sweeney was permitted to turn in time sheets while he was on vacation showing that he had worked his regular schedule as well as overtime hours. It is estimated that, between January 1, 1997 and November 30, 1999, approximately \$634,000 in unworked hours was fraudulently charged to the Department by Mr. Sweeney and the other Bell Atlantic technician.

Our contractors, Ernst & Young, identified numerous Department internal control deficiencies in their "Report on Internal Control" for the fiscal year 1999 financial statement audit. A sound internal control environment provides management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition. The lack of a sound internal control environment heightens the risk that the Department will not be able to safeguard its assets and accurately record, process and summarize financial data.

FEDERAL PELL GRANT PROGRAM FRAUD

OIG investigations and audits have disclosed patterns of fraud against the Pell grant program. The most common fraud scheme involved ineligible or non-existent applicants who falsified Free Applications for Federal Student Aid (FAFSAs) and other documents to obtain Pell grants for which they or their institutions were not entitled. For example:

- In October 1999, four New York men were sentenced for their roles in a Pell grant fraud scheme. The defendants were convicted on an indictment charging conspiracy, program fraud, false statements, wire fraud, mail fraud and tax fraud in connection with postsecondary programs that they falsely claimed to be administering. Judge Barbara Jones noted that the serious and sophisticated long-term fraud committed against the Department warranted substantial periods of incarceration and also ordered the men to make restitution of \$11 million to the Department. Judge Jones stated that the \$11 million loss to the Department's Pell grant program was a very conservative estimate since it related to losses associated with only one of the fraudulent educational programs administered by the defendants. The defendants were also charged with and convicted of defrauding the Small Business Admin-

istration and the "Section 8" rental subsidy program of the Department of Housing and Urban Development.

- On February 28, 2000, the Director of the Orange, California, branch campus of Travel and Trade Career Institute was sentenced to 5 months in jail, 5 months confinement in a community halfway house, \$83,000 restitution, \$50 special assessment, and 3 years supervised release. The Director conducted a scheme in which he drew down approximately \$83,000 in Federal Pell grants on behalf of students that did not exist. He used the money for his own personal gain and miscellaneous school expenses.

- On April 18, 2000, a Federal Grand Jury in the Northern District of Illinois returned indictments against three former school officials of the now defunct American Career Training school in Chicago, Illinois. The three individuals were indicted on conspiracy and financial aid fraud for falsifying student eligibility documents that made ineligible students appear to be eligible to receive Pell grant funds during 1993 through 1996. They received in excess of \$250,000 in Pell grant funds. The school officials created GED certificates, falsified Ability-to-Benefit test results, created Internal Revenue Service documents and created fraudulent letters from lenders and the U.S. Department of Education's Debt Collection Service.

- On April 26, 2000, the Director of the PSC School for Careers was arrested based upon allegations that she engaged in the submission of false claims for Pell grants and New York State Tuition Assistance Program grants. The criminal complaint alleges that the Director instructed school employees to create fictitious attendance records.

- On May 1, 2000, a former school owner, the school owner's daughter and a former instructor pled guilty to conspiring to steal and misapply more than \$1.4 million in Federal Pell grant funds. The funds were fraudulently obtained by forging and creating false documents and submitting fraudulent grant applications to the Department of Education for nonexistent or noneligible students. The three defendants used some of the funds for student operations and converted the rest to their own personal use, including the purchase of jewelry, real estate, furniture and an automobile.

- On July 15, 1998, a self-employed financial aid consultant was sentenced on one count of fraud against the Department, was ordered to serve 21 months in Federal prison and then placed on 2 years of supervised release. He was also ordered to pay restitution in the amount of \$5,000 plus an assessment of \$50. The consultant offered a fee to assist parents and students with their applications for Title IV funds to attend postsecondary institutions. The investigation was initiated based on information from a confidential informant who alleged that the consultant falsified various Federal financial aid documents, including tax returns, to assist parents and students in obtaining Title IV funds. A preliminary review of 1,200 seized customer files revealed that the consultant had approximately 700 parent/student files covering a period of 5 years. His account ledgers for 1995 reflected an income of \$51,188 based on 228 separate customer entries. Included in the seized customer files were completed Free Applications for Federal Student Aid, Student Aid Reports, tax forms and fraudulent tax forms prepared in the name of the consultant's clients. A preliminary review of several files revealed that clients' incomes were lowered on numerous FAFSAs and tax forms. These alterations had the effect of increasing the students' chances of receiving Federal financial aid. Another finding of the file review revealed that numerous student files reflected that some students were listed as orphans or wards of the court. This caused the students to be considered independent, which substantially increased their chance of receiving financial aid. The consultant usually charged a fee of 10 percent of a Pell grant, or approximately \$230, for his services.

- On November 30, 1999, a student at Mid-State College was sentenced for her role in defrauding the Pell grant and Federal Family Education Loan programs. She was sentenced to 6 months incarceration to be followed by a 3-year period of supervised probation, ordered to make \$6,062 in restitution to the Department and pay a \$900 fine. The student made multiple false statements regarding her marital status and her husband's income on her Free Application for Federal Student Aid.

- On March 15, 2000, a student at Pacific Lutheran University was indicted for allegedly falsifying financial aid applications to receive Pell grants. She also allegedly falsified information on Social Security applications to receive Supplemental Security Income (SSI) benefits. Her scheme involved falsifying her marital status as "separated" to avoid having to report her spouse's income on the applications. Our investigation found evidence that she was living with her spouse during the entire period she received SSI benefits and student financial aid benefits. The total amount of fraud was \$68,475.

To help combat one of these patterns of Pell grant fraud, the Higher Education Act (HEA) Amendments of 1998 (P.L. 105-244) included a provision authorizing the Department, in cooperation with the Treasury Department, to confirm with the Internal Revenue Service (IRS) key pieces of information on the Federal income tax returns of applicants and their parents. Without specific authorization in the Internal Revenue Code, however, the IRS indicates that it must obtain written taxpayer consent before individual income information may be released to the Department. We recommend that the Congress enact any necessary additional legislation to address this matter.

In the interim, the Department just completed the first of two planned test-match studies with the IRS. The Department will use the statistical information from the test match to identify the types of students who are most likely to under-report their income. The Department also intends to use the IRS information to better evaluate the extent of income under-reporting and to support its desire to conduct a full-scale data match with the IRS.

IMPROPER STUDENT LOAN FORGIVENESS

OIG audit and investigative work has also identified concerns with the discharge of loans due to disability or death. Since October 1999, OIG investigative work on fraudulent disability discharges resulted in more than \$1,000,000 in loans being reinstated by the holders of the loans, which is either the Department or a guaranty agency. For example:

- On January 13, 2000, an individual was sentenced to 6 months home detention, 5 years probation and was ordered to pay \$37,743 in restitution. The individual had submitted a fraudulent disability form to the Department of Education stating that he suffered from chronic paranoid schizophrenia and that he had a poor prognosis to be gainfully employed. As a result, he was relieved of his obligation to repay five student loans.
- On May 8, 2000, a doctor pled guilty to charges of student loan fraud and health care fraud. The next day, his brother, who is also a doctor, pled guilty to charges of misprision of the felonies of student loan fraud and health care fraud. Both doctors agreed to make restitution for the total amount obtained through their fraud schemes. The doctors mailed fraudulent total and permanent disability claims to several Federal student loan guaranty agencies and lenders to have their medical student loan obligations discharged. One doctor had two student loans discharged, totaling \$32,548, including \$4,366 refunded directly to him. The other doctor had two student loans discharged totaling \$11,992, including \$4,098 refunded directly to him. A third loan discharge for the second doctor in the amount of approximately \$15,000 was prevented as a result of this investigation. Our investigation revealed that the first brother submitted false disability claims stating that he and his brother were house confined and/or wheelchair-bound. However, OIG agents observed the brothers riding bicycles and swimming at a beach. Our investigation also revealed that the disability claims were certified by a non-existent physician and were often accompanied by letters from a non-existent attorney.

In our June 1999 audit entitled Improving the Process for Forgiving Student Loans, which was requested by the Department, we recommended that several steps be taken to enhance the current discharge determination procedures. These include revising the disability form to include, at a minimum, the doctor's professional license number and office telephone number, and requiring certified copies of death certificates. The Department modified its disability form to incorporate our recommendations and OMB approved the form. Also, the Department now requires that a death discharge be based only on an original or certified copy of the death certificate.

Our office continues to pursue this matter. In order to identify fraudulent death discharges, we conducted a data match with the Social Security Administration's Death Index to identify persons who received loan discharges based upon death, but who do not appear in the Social Security Death Index. Working with a sample of these data and with information filed by those who obtained substantial discharges from Sallie Mae and a number of guaranty agencies, our investigators are pursuing leads generated by the match. In the area of disability discharge fraud, we are working with the guaranty agencies to identify potential fraud cases and following up on leads developed from the data.

INTERNAL CONTROLS

A key factor in improving accountability and minimizing operational problems within the Department is the implementation of appropriate internal controls. Recently, the General Accounting Office (GAO) updated its standards for internal con-

trol in government. The standards provide a framework for establishing and maintaining internal control and for identifying and addressing management challenges and areas susceptible to fraud, waste and abuse. The GAO standards address the areas of control environment, risk assessment, control activities, communication and monitoring.

Currently, we are reviewing existing internal controls over the procurement of goods and services. Our review is based on the GAO standards. We are conducting interviews with procurement personnel and senior managers in each principal office within the Department and performing transaction testing to verify the Department's internal control procedures. To date, we have found internal control deficiencies in the Department's use of the government purchase card and third party checks. At the completion of our review, we will have delivered an individual report to each principal office and a report containing summary recommendations to the Department.

CONCLUSION

Ultimately, the design and implementation of any internal control must be based on an analysis of costs and benefits. Even well designed and implemented internal controls cannot provide absolute assurance against fraud, waste and abuse. There always will be factors such as human mistakes and acts of collusion that will be outside the control or influence of management. That is why we need to remain vigilant and maintain a credible deterrence through, among other things, a regular program of management reviews, an active hotline function, and vigorous audit and investigative operations.

This concludes my prepared testimony. I am happy to answer any questions you or other members of the Task Force may have on these issues.

Mr. Hoekstra. Ms. Jarmon and Mr. Engel.

STATEMENT OF GLORIA L. JARMON, DIRECTOR, HEALTH, EDUCATION, AND HUMAN SERVICES, ACCOUNTING AND FINANCIAL MANAGEMENT ISSUES; GARY T. ENGEL, ASSOCIATE DIRECTOR, GOVERNMENTWIDE ACCOUNTING AND FINANCIAL MANAGEMENT ISSUES, U.S. GENERAL ACCOUNTING OFFICE

Ms. JARMON. We are pleased to be here today to talk about the financial management at the Department of Education.

With me today is Gary Engel, the Associate Director responsible for GAO's work on Education's grantback account.

We will focus on three issues: first, the financial statement audit results for fiscal year 1999; secondly, the potential that the reported weaknesses have to create fraud, waste and abuse; and, third, the results of our review of the Department's grantback account. Much of our testimony today reflects our March 1 testimony on these issues.

The bottom line on Education's financial audit results is that Education still faces severe internal control and financial management systems weaknesses. These weaknesses have been very similar from year to year, starting with Education's first agency-wide audit for fiscal year 1995. They make it extremely difficult for Education to give timely, reliable financial information to decision-makers both inside and outside the agency.

Education's financial staff and its contractors worked very hard to put together their fiscal year 1999 statements, and the auditors' opinion on these statements improved over fiscal year 1998. In addition, the fiscal year 1999 audit was the first time that the Department's statements were issued on time.

However, as part of the audit, the Department's auditors looked at Education's internal controls and reported four material weaknesses. They are weaknesses in the financial reporting process,

weaknesses in reconciling financial accounting records, weaknesses in controls over information systems, and weaknesses in accounting for certain loan transactions.

In addition to its continued internal control problems, Education also failed to fully comply with three laws in fiscal year 1999. They are, first, the Federal Financial Management Improvement Act; secondly, the Clinger-Cohen Act; and, third, the Federal Credit Reform Act.

The internal control weaknesses in the auditor's report need to be addressed to reduce the potential for fraud, waste and abuse at Education. For example, the information systems control weaknesses could increase the risk of unauthorized access or disruption in services and make Education's sensitive grant and loan data vulnerable to inadvertent or deliberate misuse, fraudulent use, improper disclosure or destruction. These types of vulnerabilities were discussed in more detail in the report issued by the Department's IG in late February.

In addition, Ms. Lewis's statement today shows that the lack of a sound internal control environment heightens the risk that the Department will not be able to safeguard its assets and accurately record, process and summarize financial data.

Finally, regarding the grantback account, which is part of the Education's Fund Balance with Treasury, its auditors reported that Education could not readily say where and to which appropriations the assets funds belonged.

As you know, we recently completed our review of this account and found that, although it was established for grantback activities, Education also used it as an suspense account for hundreds of million of dollars of activity related to grant reconciliation efforts. We found that Education could not provide adequate documentation to support the validity of certain adjustments related to the reconciliation efforts and other activity in the grantback account.

For those transactions for which Education provided adequate documentation to enable us to conclude that such transactions were valid, we did not identify identifications of fraud. However, given the significant number of transactions for which we were not provided adequate support and that we did not perform a fraud audit, we cannot provide assurance that fraud has not taken place.

As a result of financial management systems deficiencies, inadequate systems of financial control and manual internal control weaknesses, which we and other auditors identified, there is increased risk of fraud, waste and mismanagement of grant funds, as well as increased risk of noncompliance with the requirements of the Anti-Deficiency Act.

In closing, we would like to stress that the weaknesses identified by our grantback work and by Education's auditors as part of the financial audit are serious financial management weaknesses, and it is critical that Education continue to work hard to resolve these weaknesses. Achieving all aspects of a strategic objective partly depends on reliable financial management information and effective internal controls.

Mr. Chairman, this concludes my statement. We would be happy to answer any questions from you or any other members of the task force.

Mr. HOEKSTRA. Thank you very much.

[The prepared statement of Ms. Jarmon and Mr. Engel follows:]

PREPARED STATEMENTS OF GLORIA L. JARMON, DIRECTOR, HEALTH, EDUCATION, AND HUMAN SERVICES, ACCOUNTING AND FINANCIAL MANAGEMENT ISSUES; GARY T. ENGEL, ASSOCIATE DIRECTOR, GOVERNMENTWIDE ACCOUNTING AND FINANCIAL MANAGEMENT ISSUES, U.S. GENERAL ACCOUNTING OFFICE

Mr. Chairman and members of the Task Force, we are pleased to be here today to discuss first, the Department of Education's fiscal year 1999 financial audit results¹ in the context of related work we have performed, second, the relationship between the audit findings and the potential for waste, fraud, and abuse, and third, the results of our review of the Department's grantback account. Much of the testimony today reflects our March 1, 2000, testimony on these issues.²

The Department's financial activity is important to the Federal Government because Education is the primary agency responsible for overseeing the more than \$75 billion annual Federal investment in support of educational programs for U.S. citizens and eligible noncitizens. The Department is also responsible for collecting about \$175 billion owed by students. In fiscal year 1999, more than 8.1 million students received over \$53 billion in Federal student financial aid through programs administered by Education.

The Department's stewardship over these assets has been under question as the agency has experienced persistent financial management weaknesses. Beginning with its first agencywide financial audit effort in fiscal year 1995,³ Education's auditors have each year reported largely the same serious internal control weaknesses, which have affected the Department's ability to provide reliable financial information to decision makers both inside and outside the agency.

BACKGROUND

Federal decision makers need reliable and timely financial management information to ensure adequate accountability, manage for results, and make timely and well-informed decisions. However, historically, such financial management information has not been available across the government. Agency IG reports, independent public accountants' reports, and our own work have identified persistent limitations in the availability of quality financial data for decision making. Audits have shown that Federal financial management is in serious disrepair, which results in incorrect financial information being provided to the Congress and the administration. Without reliable financial information, government leaders do not have the full facts necessary to make investments of scarce resources or direct programs. Creating a government that runs more efficiently and effectively has been a public concern for decades.

Over the past 10 years, dramatic changes have occurred in Federal financial management in response to the most comprehensive management reform legislation of the past 40 years. The combination of reforms ushered in by (1) the Chief Financial Officers (CFO) Act of 1990, (2) the Government Management Reform Act of 1994, (3) the Federal Financial Management Improvement Act (FFMIA) of 1996, (4) the Government Performance and Results Act (GPRA) of 1993, and (5) the Clinger-Cohen Act of 1996 will, if successfully implemented, provide the necessary foundation to run an effective, results-oriented government. Efforts to continue to build the foundation for generating accurate financial information through lasting financial management reform are essential. Only by generating reliable and useful information can the government ensure adequate accountability to taxpayers, manage for results, and help decision makers make timely, well-informed judgments.

Education's fiscal year 1999 audit was conducted by Ernst & Young LLP, independent auditors contracted for by the Education Inspector General. We reviewed the independent auditors' reports and workpapers. We shared a draft of this state-

¹ Department of Education, Fiscal Year 1999 Consolidated Financial Statements, Ernst & Young LLP, February 2000.

² Financial Management: Education Faces Challenges in Achieving Financial Management Reform (GAO/T-AIMD-00-106, March 1, 2000).

³ For fiscal year 1995, a year before the Government Management Reform Act (GMRA) requirements became effective, the Department's Inspector General (IG) hired a contractor to perform its first agencywide financial audit.

ment with Education officials, who provided technical comments. We have incorporated their comments where appropriate. Our work was conducted in accordance with generally accepted government auditing standards.

FISCAL YEAR 1999 AUDIT RESULTS

The Office of Management and Budget's (OMB) implementation guidance for audited financial statements requires the 24 CFO Act agencies to receive three reports from their auditors annually: first, an opinion or report on the agencies' financial statements, second, a report on the agencies' internal controls, and third, a report on the agencies' compliance with laws and regulations. We recently reported⁴ that 13 of the 24 CFO Act agencies received "clean" or unqualified opinions on their fiscal year 1999 financial statements.⁵ The Department of Education did not receive such an opinion because of its financial management weaknesses.

As reported in December,⁶ and again in March,⁷ the Department issued its fiscal year 1998 financial statements over 8 months late and was one of six CFO Act agencies that received disclaimers—meaning that the auditors were unable to express an opinion on their financial statements for that fiscal year.⁸ Pervasive weaknesses in the design and operation of Education's financial management systems, accounting procedures, documentation, recordkeeping, and internal controls, including computer security controls, prevented Education from reliably reporting on the results of its operations for fiscal year 1998.

REPORT ON THE FINANCIAL STATEMENTS

While Education's financial staff and its contractors worked very hard to prepare Education's fiscal year 1999 financial statements before the March 1, 2000, deadline, and the auditors' opinion on the financial statements improved over that of fiscal year 1998, serious internal control and financial management systems weaknesses continued to plague the agency. For fiscal year 1999, Education made significant efforts to work around these weaknesses and produce financial statements. These efforts enabled its auditors to issue qualified opinions⁹ on four of its five required financial statements and a disclaimer on the fifth statement. Its auditors' qualified opinion states that except for the effect of the matters to which the qualification relates, the financial statements present fairly, in all material respects, financial position, net costs, changes in net position, and budgetary resources in conformity with generally accepted accounting principles. The auditors stated the following reasons or matters for their qualification:

- The Department had significant systems weaknesses during fiscal year 1999 affecting its financial management systems. The new accounting system, implemented in fiscal year 1998, had several limitations, including an inability to perform a year-end closing process or produce automated consolidated financial statements. Through its efforts and those of its contractors, Education was able to partially compensate for, but did not correct, certain aspects of the material weaknesses in its financial reporting process. In addition, during fiscal year 1999, Education experienced significant turnover of financial management staff, which also contributed to the overall weakness in financial reporting.
- Education was unable to provide adequate support for about \$800 million reported in the September 30, 1999, net position balance in its financial statements, and the auditors were unable to perform other audit procedures to satisfy themselves that this amount was correct.

⁴ Letter to the Congress highlighting our conclusions on the Fiscal Year 1999 Financial Report of the United States Government (GAO/AIMD-00-131, March 31, 2000).

⁵ As of May 15, 2000, the Department of State had not issued its audit report. Since our last report, the Department of Interior's (DOI) Office of Inspector General issued an unqualified opinion on DOI's fiscal year 1999 financial statements.

⁶ Financial Management: Financial Management Weaknesses at the Department of Education (GAO/T-AIMD-00-50, December 6, 1999).

⁷ Financial Management: Education Faces Challenges in Achieving Financial Management Reform (GAO/T-AIMD-00-106, March 1, 2000).

⁸ In addition to the 6 agencies that received disclaimers in fiscal year 1998, 4 agencies received qualified opinions, 2 agencies received mixed opinions, and 12 agencies received unqualified or "clean" opinions.

⁹ Such an opinion is expressed when first, there is a lack of sufficient competent evidential matter or there are restrictions on the scope of the audit that have led the auditor to conclude that he or she cannot express an unqualified opinion and he or she has concluded not to disclaim an opinion or second, the auditor believes, on the basis of his or her audit, that the financial statements contain a departure from generally accepted accounting principles, the effect of which is material, and he or she has concluded not to express an adverse opinion.

- Education processed many transactions from prior fiscal years as fiscal year 1999 transactions and manually adjusted its records in an effort to reflect the transactions in the proper period; however, the auditors could not determine if these adjustments for certain costs and obligations were correct.

- The auditors were unable to determine whether beginning balances for accounts payable and related accruals were accurate.

In addition, as in the prior year, the auditors did not issue an opinion (referred to as a disclaimer of an opinion) on the Department's Statement of Financing. The Statement of Financing provides a reconciliation or "translation" from the budget to the financial statements. The statement is intended to help those who work with the budget to understand the financial statements and the cost information they provide. The auditors stated that the reason for this disclaimer was that the Department did not perform adequate reconciliations and present support for amounts on the Statement of Financing in a timely manner.

To the extent that Education was able to improve the opinion it received on its financial statements for fiscal year 1999, it was generally the result of first, time-consuming manual procedures, second, various automated tools to "work around" the system's inability to close the books and generate financial statements, and third, significant reliance on external consultants to assist in the preparation of additional reconciliations and the financial statements. This approach does not produce the timely and reliable financial and performance information Education needs for decision making on an ongoing basis, which is the desired result of the CFO Act.

REPORT ON INTERNAL CONTROLS

The Department also receives annually from its auditors a report on internal controls. This report is significant for highlighting the agency's internal control weaknesses that increase its risk of mismanagement that can sometimes result in waste, fraud, and abuse. In this report for fiscal year 1999, the Department's auditors reported four material¹⁰ internal control weaknesses—three continuing from fiscal year 1998 and one additional one for fiscal year 1999—and that long-standing internal control weaknesses persist.

The specific material internal control weaknesses cited by the independent auditors for fiscal year 1999 were first, weaknesses in the financial reporting process, second, inadequate reconciliations of financial accounting records, and third, inadequate controls over information systems. The independent auditors also identified a new material internal control weakness related to accounting for certain loan transactions. Summaries of the material internal control weaknesses follow:

- As in prior years, Education did not have adequate internal controls over its financial reporting process. Its general ledger system was not able to perform an automated year-end closing process and directly produce consolidated financial statements as would normally be expected from such systems. Because of these weaknesses, Education had to resort to a costly, labor-intensive, and time-consuming process involving manual and automated procedures to prepare financial statements for fiscal year 1999. In addition, Education had to rely heavily on contractor services to help perform reconciliations among the various data sources used. In one instance, Education reported a balance of approximately \$7.5 billion for its cumulative results of operations. However, the majority of this amount, which pertains to the Federal Family Education Loan Program (FFELP), should have been reported as a payable to Treasury rather than as cumulative results of operations. As a result of the independent auditors' work, an adjustment was made to reclassify the \$7.5 billion to the proper account. When such errors occur and are not detected by the Department's controls, there are increased risks that the Department could retain funds inappropriately that should be returned to Treasury.

- Education again did not properly or promptly reconcile its financial accounting records during fiscal year 1999 and could not provide sufficient documentation to support some of its financial transactions. Weaknesses in the Department's internal controls over the reconciliation process prevented timely detection and correction of

¹⁰ A material internal control weakness is a reportable condition that precludes the entity's internal controls from providing reasonable assurance that material misstatements in the financial statements or material noncompliance with applicable laws or regulations will be prevented or detected on a timely basis. In addition to these material internal control weaknesses, the independent auditors also reported four reportable conditions. Reportable conditions are matters coming to the auditors' attention that, in their judgment, should be communicated because they represent significant deficiencies in the design or operation of internal controls that could adversely affect the organization's ability to meet the objectives of reliable financial reporting and compliance with applicable laws and regulations.

errors in its underlying accounting records. In some instances, Education adjusted its general ledger to reflect the balance per the subsidiary records, without sufficiently researching the cause for differences. Also, as indicated in prior audits, Education has not been able to identify and resolve differences between its accounting records and cash transactions reported by the Treasury. For example, for fiscal year 1999, Education adjusted its Fund Balance with Treasury, due to a difference between its general ledger and the Treasury, by a net amount of about \$244 million. Reconciling agencies' accounting records with relevant Treasury records is required by Treasury policy and is analogous to individuals reconciling their checkbooks to monthly bank statements.

- During fiscal year 1999, Education did not properly account for its funds disbursed under FFELP. Specifically, it did not return about \$2.7 billion in net collections specific to its liquidating account to Treasury as required by the Credit Reform Act of 1990. The liquidating account is used to record transactions for loans originated prior to fiscal year 1992. Any unobligated balances in this account at fiscal year end are unavailable for obligations in subsequent fiscal years and must be transferred to the general fund. Further, Education did not sufficiently analyze the balances reflected on the financial statements to ensure that the FFELP balances agreed with relevant balances in the Department's budgetary accounts. The auditors stated that this situation resulted in an unexplained difference of about \$700 million between the FFELP Fund Balance with Treasury account and related budgetary accounts as of September 30, 1999. By not properly accounting for and analyzing its FFELP transactions as required by the Federal Credit Reform Act of 1990, Education cannot be assured that its financial or budgetary reports are accurate.

- Education had information systems control deficiencies in first, implementing user management controls, such as procedures for requesting, authorizing, and re-validating access to computing resources, second, monitoring and reviewing access to sensitive computer resources, third, documenting the approach and methodology for the design and maintenance of its information technology architecture, and fourth, developing and testing a comprehensive disaster recovery plan to ensure the continuity of critical system operations in the event of disaster. The Department places significant reliance on its financial management systems to perform basic functions, such as making payments to grantees and maintaining budget controls. Consequently, continued weaknesses in information systems controls increase the risk of unauthorized access or disruption in services and make Education's sensitive grant and loan data vulnerable to inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, which could occur without being detected.

Our work in this area has shown that other agencies have improved their financial audit report results but are also facing material internal control weaknesses. A number of other agencies have focused their efforts primarily on trying to develop short-term stop-gap measures designed to produce year-end balances rather than on the fundamental solutions that are needed to address the management challenges they face. As a result, these agencies continue to experience pervasive material weaknesses in the design and operation of their financial management and related operational systems, accounting procedures, documentation, recordkeeping, and internal controls, including computer security controls. Consequently, these agencies rely on costly, time-consuming ad hoc procedures to determine year-end balances. This approach does not produce the timely and reliable financial and performance information needed for decision making on an ongoing basis. This approach is also inherently incapable of addressing the underlying financial management and operational issues that adversely affect these agencies' ability to fulfill their missions.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The third report that the auditors issue annually is a report on agency compliance with laws and regulations. Specifically, the Department's auditors reported that it was not in full compliance with three laws as noted below.

- For fiscal year 1999, the independent auditors found that Education was again not in compliance with FFMIA because it lacked adequate, integrated financial management systems, reports, and oversight to prepare timely and accurate financial statements. The Department was 1 of 21 CFO Act agencies whose financial systems did not comply with the requirements of FFMIA in fiscal year 1998. Because many agencies have significant financial management systems weaknesses, these results did not change significantly in fiscal year 1999–2000 of 23¹¹ agencies' systems did not comply with FFMIA. However, it is imperative that these problems be resolved so that agencies can produce needed financial information on a day-to-day

¹¹ As of May 15, 2000, the Department of State had not issued its audit report.

basis in a timely and accurate manner. FFMIA requires that agency financial management systems substantially comply with first, Federal financial management systems requirements,¹² second, Federal accounting standards, and third, the U.S. Government Standard General Ledger¹³ at the transaction level. We are working with OMB and the agencies to evaluate their progress in resolving these significant weaknesses.

- The Department had neither fully implemented a capital planning and investment process nor performed an assessment of the information resource management knowledge and skills of agency personnel, including a plan to correct identified deficiencies, as required by the Clinger-Cohen Act of 1996. A key goal of the Clinger-Cohen Act is that agencies should have processes and information in place to help ensure that information technology (IT) projects are being implemented at acceptable costs and within reasonable and expected time frames and that they are contributing to tangible, observable improvements in mission performance. By not fully implementing the plans called for under the act, Education was not maximizing the value and assessing and managing the risks of its IT investments.

- The Department did not transfer its excess funds related to FFELP, specifically the \$2.7 billion of net collections previously mentioned, to Treasury as required by the Federal Credit Reform Act of 1990.

POTENTIAL FOR FRAUD, WASTE, AND ABUSE

Education continues to be plagued by serious internal control and system deficiencies that hinder its ability to achieve lasting financial management improvements. The internal control weaknesses discussed above and in more detail in the auditors' report need to be addressed to reduce the potential for waste, fraud, and abuse in the Department. Some of the vulnerabilities identified in the audit report include weaknesses in the financial reporting process, inadequate reconciliations of financial accounting records, information systems weaknesses, and property management weaknesses. Specific examples of vulnerabilities related to these weaknesses follow:

- The material internal control weakness related to financial reporting highlights the fact that managers do not receive accurate and timely financial information, such as information on disbursements made and amounts collected, that could be used to identify unusual activity and other anomalies.

- Some of the known duplicate payments mentioned by the auditors in their report on internal controls could have been identified earlier if proper reconciliations had been performed. The auditors stated that the Department has procedures in place that should detect duplicate payments and correct them within a reasonable time frame. We have not reviewed these procedures.

- The auditors stated that because the Department has not developed formal policies and procedures to reconcile grant expenditures between its payments system and its general ledger system, there is increased risk that material errors or irregularities could occur and not be detected on a timely basis. This is significant because the volume of grant transactions is over \$30 billion per year.

- The information systems weaknesses highlight some of the computer security vulnerabilities, such as the lack of an effective process to monitor security violations on all critical systems of the Department. Information systems control weaknesses increase the risk of unauthorized access or disruption in services and make Education's sensitive grant and loan data vulnerable to inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, which could occur without being detected. A report issued by the Department's Inspector General in February¹⁴ emphasizes the need for the Department to focus on addressing its computer security vulnerabilities. In addition, earlier this year, the White House recognized the importance of strengthening the nation's defenses against threats to public and private sector information systems that are critical to the country's economic and social welfare when it issued its National Plan for Information Systems Protection.¹⁵ In the aftermath of the recent attack by the "ILOVEYOU" virus, which disrupted operations at large corporations, governments, and media organizations

¹²The financial management systems requirements have been developed by the Joint Financial Management Improvement Program, which is a joint and cooperative undertaking of the Department of the Treasury, OMB, GAO, and the Office of Personnel Management.

¹³The Standard General Ledger provides a standard chart of accounts and standardized transactions that agencies are to use in all their financial systems.

¹⁴Review of Security Posture, Policies and Plans (ED-OIG/A11-90013) February 2000.

¹⁵Defending America's Cyberspace: National Plan for Information Systems Protection: Version 1.0: An Invitation to a Dialogue, released January 7, 2000, the White House.

worldwide, we recently testified¹⁶ about the need for Federal agencies to promptly implement a comprehensive set of security controls.

- The auditors reported that Education had not taken a complete, comprehensive physical inventory of property and equipment for at least the past 2 years. Comprehensive inventories improve accountability for safeguarding the government's assets, such as computer software and hardware, and establish accurate property records. Without such an inventory, property or equipment could be stolen or lost without detection or resources could be wasted by purchasing duplicate equipment already on hand. An alleged equipment theft is currently under investigation by the OIG.

In addition, vulnerabilities in the Department's student financial assistance programs have led us since 1990 to designate this a high-risk¹⁷ area for waste, fraud, abuse, and mismanagement. As we reported in our high-risk series update in January 1999, our audits as well as those by the Department's IG have found instances in which students fraudulently obtained grants and loans.

REVIEW OF THE GRANTBACK ACCOUNT

The grantback account holds certain funds recovered from grant recipients following an audit determination that the recipients had made an expenditure of funds that was not allowable or failed to account properly for the funds. A portion of these funds could be returned to the recipients if and when the problem that led to the recovery of the funds has been corrected. Any amounts not returned to the grant recipients should revert to Treasury. For the grantback account, which is part of Education's Fund Balance with Treasury, its auditors reported that approximately 97 percent of the balance at September 30, 1998, was composed of adjustments that had accumulated since fiscal year 1993 for reconciling differences of various appropriations that could not be identified with any specific program. The auditors also reported for fiscal year 1999 that Education could not readily determine to which appropriations the adjustments balance belongs. Education's general ledger as of September 30, 1999, showed approximately \$314 million in Fund Balance with Treasury related to the grantback account, of which approximately \$297 million related to the adjustments. In January 2000, Education returned to Treasury approximately \$146 million of the adjustments balance. The auditors reported that Education is working with Treasury to determine the appropriate accounting for the remaining adjustments balance.

Mr. Chairman, at your request and that of the Vice Chairman of the Subcommittee on Oversight and Investigations of the House Committee on Education and the Workforce, we reviewed Education's grantback account. We briefed you and Education officials on our findings earlier this month and plan to issue our detailed report in the near future.

In our review of the grantback account, we found that although the account was established for grantback activities, Education also used it as a suspense account for hundreds of millions of dollars of activity related to grant reconciliation efforts. We also found that Education could not provide adequate documentation to support the validity of certain adjustments related to the reconciliation efforts and other activity in the grantback account. For example, out of a sample of 92 grantback transactions totaling \$128 million, Education could not locate or provide any documentation to support the validity of 39 of these transactions totaling \$47 million. In addition, out of 20 adjustment transactions we selected for testing, Education could not provide adequate documentation to support the validity of 6 transactions.

Further, Education did not maintain adequate detailed records for certain grantback account activity by the applicable fiscal year and appropriation. Such detailed records are needed to have an adequate system of funds control and help protect against Anti-Deficiency Act violations. For example, an adjustment we tested totaling \$111 million reduced the grantback account balance and increased the balance of six appropriations to ensure that projected negative balances for such appropriations did not occur. However, Education could not provide any documentation to show that the increases to the appropriation accounts to prevent the negative balances were valid. As a result of financial management systems deficiencies, inadequate systems of funds control, and manual internal control weaknesses, which we and other auditors identified, there is increased risk of fraud, waste, and mismanagement of grant funds, as well as increased risk of noncompliance with the requirements of the Anti-Deficiency Act.

¹⁶ Information Security: "ILOVEYOU" Computer Virus Emphasizes Critical Need for Agency and Governmentwide Improvements (GAO/T-AIMD-00-171, May 10, 2000).

¹⁷ High Risk Series: An Update (GAO/HR-99-1, January 1999).

We noted in our briefing that Education had taken or plans to take actions to address the grantback account issues. In addition, our briefing included recommendations to Education to strengthen internal controls related to documentation and policies and procedures for grant reconciliations and to develop and implement a formal, detailed plan to eliminate the remaining portion of the adjustments balance.

In summary, Education needs to be able to generate reliable, useful, and timely information on an ongoing basis to ensure adequate accountability to taxpayers, manage for results, and help decisionmakers make timely, well-informed judgments. While Education has planned and begun implementing many actions to resolve its financial management problems, it is too early to tell whether they will be successful. It is critical that Education rise to the challenges posed by its financial management weaknesses because its success in achieving all aspects of its strategic objectives depends in part upon reliable financial management information and effective internal controls. It is also important to recognize that several of the financial management issues that have been raised in reports emanating from reviews of Education's financial statements directly or indirectly affect Education's ability to meet its obligations to its loan and grant recipients and responsibilities under law.

Mr. Chairman, this concludes our statement. We would be happy to answer any questions you or other members of the Task Force may have.

Mr. HOEKSTRA. In the high-tech world, we can't get our little red, yellow and green light bulbs to work today.

I appreciate your timeliness to adhere to the 5 minutes. I am not sure that we can always say that about members. We are going to go with a low-tech Timex here and see how we control member's time. We will go on the 5-minute rule.

Mr. Moore, the reason that we wanted somebody from the financial sector and financial investing area to come today was just to establish that what we are asking for from the Department of Education is not a high hurdle. This is where the private sector begins, isn't that correct, with a publicly held company?

Mr. MOORE. This is the same thing that every company in America has to do, account for its income and how it is spending its money.

Mr. HOEKSTRA. And if a company does not do that, the impact is very, very significant.

The company that you highlighted has lost 90 percent of its market value, not necessarily because of proven fraud, waste and abuse, but because they could not produce accurate financial statements; is that correct?

Mr. MOORE. That is correct. Their methods by some were considered OK, but by generally accepted practices they are not considered OK.

Mr. HOEKSTRA. And the typical reason when you see such a dramatic action in the private sector is that it basically makes it very difficult for investors to make any kind of reasonable decision-making because the risks are too high, because they don't know how money that they are investing is actually is going to be used or how it is going to be reported?

Mr. MOORE. That is correct.

Going further, that may be the tip of the iceberg, is what many investors may assume. If this is uncovered, what else hasn't been uncovered yet?

Mr. HOEKSTRA. Mr. Murrin, I don't know if you want to add to that. In the private sector, I think you are right. It is viewed as a symptom. If they can't do the basics, what else is going wrong? If you don't have the proper financial controls in place, you create an environment where fraud, waste and abuse can exist.

Mr. MURRIN. I think it is fair to say that good financial management is applauded in the financial community as it is in the public sector.

Mr. HOEKSTRA. And it is highly penalized if it is not there?

Mr. MURRIN. That is correct.

Mr. HOEKSTRA. I applaud the IG and the Justice Department for the work they have done in the inventory and overtime scams, but it shouldn't be a surprise that these scams can happen at the Department of Education. For a number of years, it has been repeatedly brought to the Department's attention that they lack adequate inventory controls, and year after year we have seen little action to fix this problem. Such inaction sends a message to potential thieves that no one is guarding the store.

Mr. Lewis, you went through the end result of what happened without proper inventory controls. You outlined a list of everything from a 61-inch television, to Gateway computers, phones and disc players, in all inventory totaling more than \$300,000, and discussed the more than \$600,000 in false overtime billing. Based on the testimony we've heard today, it is sad to say that none of this should be surprising.

Ms. Lewis, you also outlined a number of other areas where you are currently investigating or identifying fraud, waste, and abuse. Some of the numbers may seem small in the context of the Department's overall budget, but a million here and a million there adds up rather quickly.

Ms. Jarmon's testimony highlighted some issues that present long-term concerns. The Department's grantback account is plagued by a lack of documentation or inappropriate designation of funds controlled by that account. In the case of a grantback account we are talking about hundreds of millions of dollars, is that correct?

Mr. ENGEL. Yes, that is correct.

Mr. HOEKSTRA. And we don't know if fraud has occurred or has not occurred, we basically just don't have the information?

Mr. ENGEL. That is true. In our testing that we have performed for about half of the transactions that we had selected for testing, we were unable to be provided with adequate documentation to determine whether those transactions themselves were valid. So for an instance like that, I can't speak to whether it is fraud or not because there is no documentation to speak to.

For the ones where we were provided the adequate documentation, we did not see indications of fraud. But in our work we did identify numerous instances of weaknesses in controls, lack of approval requirements, lack of effective reconciliation procedures which increased the potential for fraud, waste and abuse to take place.

Mr. HOEKSTRA. Just in wrapping up for my colleagues, tomorrow the Education and Workforce Committee will mark up a piece of legislation which I am anticipating will have bipartisan support. It will move to the top of the priority list for GAO the task of performing a more comprehensive fraud audit. The goal of the audit is to identify if there is additional fraud happening in the Department based on what we found today.

The standard we are asking for is not unreasonable. There have been a number of documented cases of fraud, waste and abuse within the Department of Ed. There are still many questions that need to be answered from our standpoint on the Education and Workforce Committee. It is a high priority to get a handle on this issue and bring it under control.

Ms. Rivers.

Ms. RIVERS. Thank you, Mr. Chairman.

Mr. Moore, are you a CPA?

Mr. MOORE. No, a CFP.

Ms. RIVERS. Have you ever been a government auditor?

Mr. MOORE. No.

Ms. RIVERS. Do you have any firsthand accounts with the Department of Education?

Mr. MOORE. No.

Ms. RIVERS. Mr. Murrin, when Ernst & Young did their review of the Department of Education, you folks didn't catch the \$300,000 scheme that was going on. How come?

Mr. MURRIN. That is correct, we did not. We were not engaged to perform a forensic or fraud audit. We were engaged to perform an audit of the financial statements of the Department.

Ms. RIVERS. Did it have anything to do with the size of the scheme?

Mr. MURRIN. That would play a role in how readily the item is detected.

Ms. RIVERS. How?

Mr. MURRIN. The range that is discussed for the grantback account is large enough that it becomes identified as an issue that would get discussed and potentially discussed in a forum like this. It is considerably less likely that a \$300,000 item would have appeared on the radar screen for that kind of discussion.

Ms. RIVERS. So even though that is a whole lot of money to people like us, in the scheme of what the Department does, \$300,000 is a hard number to track?

Mr. MURRIN. Within the context of a financial audit of the Department, the \$300,000 would not necessarily show up on the radar screen.

Ms. RIVERS. Ms. Jarmon or Mr. Engel, the grantback account, some people have referred to that as a slush fund. Could the Department of Education—could they or is there any indication that they did use money from that account to purchase things, to spend in other accounts, to do anything outside of the law with that account?

Mr. ENGEL. We did not find any evidence, in the transactions for which we had received support, that the transactions were anything but related to grant activity. We didn't see, for instance, a purchase of a car or anything. But, again, I would point out that for half of the transactions that we had selected for testing we were never provided any documentation.

Ms. RIVERS. I see that under the law the IRS is supposed to share information with the Department of Education to track compliance information, and they are unwilling to do that. Why is it that the IRS is not giving the information that the law requires?

Ms. LEWIS. The Higher Education Act Amendments of 1998 authorize the Department to receive this information, and coordinate with the Treasury.

In terms of implementing that, the IRS has indicated, as we indicated at your February hearing here in the Budget Committee, that they feel that there legally needs to be a very explicit amendment to the Internal Revenue Code to allow them, without taxpayer consent, to share the information on tax forms so that the Education Department can compare it to the FAFSAs. So the Office of Inspector General has specifically recommended that Congress pass whatever additional legislation is necessary.

Ms. RIVERS. How long ago did you recommend that?

Ms. LEWIS. We supported the amendment when it was first considered in Congress and then—

Ms. RIVERS. And how long ago was that?

Ms. LEWIS. It became effective with the 1998 amendments to the HEA. And in the implementation process there have been discussions by OMB, the Department of Education, Treasury and the IRS, and this issue of a legal impediment has arisen. In our semi-annual reports and in testimony we have indicated that if this is the case, then hopefully there can be some clarification in the Internal Revenue Code because the Department and the OIG are very desirous of that.

Ms. RIVERS. When did you first make that recommendation?

Ms. LEWIS. Since 1998.

Ms. RIVERS. And yet Congress has not taken any action?

Ms. LEWIS. I know that it has been considered. It was a subject of discussion of the committee back in February.

Ms. RIVERS. Thank you, Mr. Chair.

Mr. HOEKSTRA. Mr. Moran and myself are currently waiting for the legislative language to come back from legislative counsel. I think it is kind of tricky to craft it, and they are busy writing amendments for the appropriations bills. We wanted to do that in a bipartisan way, and at the last hearing Mr. Moran indicated a willingness to work with us, and so we are trying to work out the exact language necessary to address this issue.

Ms. LEWIS. Yes.

Mr. HOEKSTRA. Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman. My questions are fairly simple and fairly basic ones.

Mr. Murrin, obviously, your firm, your office, has to have a great deal of experience in dealing not only with the Department of Education but with some major employers and major companies. One thing that we constantly hear is that the Department of Education and other agencies, other departments, are unable to do rudimentary audits because somehow their operations are so complex and so complicated that they can't do that. Can you give us some sort of context here comparing the types of functions that they are involved with and, on the other hand, a Fortune 500 company and its operations in terms of complexity? Does it make sense that these U.S. Federal departments can't—will always be unable to audit their books because they are so complicated? How does that compare with what goes on in the private sector?

Mr. MURRIN. I think there are parallels between the largest private sector entities, and it certainly would be with the largest private sector entities, and with public sector entities. I do not share a view that the agencies should never be able to get clean opinions and should never be able to get rid of material weaknesses and reportable conditions.

I guess our view would be that they have come from very far back in the pack, from a 100-year history of never having had financial audits. They are moving forward with the passage of the CFO Act and the extension of financial auditing to other agencies, and moving forward to get the audit discipline in place, but in many cases, they have a long way to go. And to the extent that the financial management systems that they are dealing with were never put in place with the idea that someone would rigorously come and check the way that a financial audit process does every year. As to how the numbers are pulled together, and ask questions as to whether I have the detect controls, whether you have the prevent controls, they are finding it difficult to achieve that early on. But the parallels with the largest private sector entities would exist, and eventually a very large multinational company with locations across the country or across the world faces some similar things to what those public sector do and have to address those issues and have successfully addressed those issues.

Mr. GREEN. Obviously many of those companies are going well beyond the basic auditing requests that we have made.

Let me shift everyone's attention and thinking and posture. I would like each of the witnesses, if you could, if you had to offer one single thing, one single principle that you would like to see implemented at the Department of Education to try to rapidly move us toward compliance, what would it be? And I toss that out to each of the panelists. What is it that should be done? What one step would you recommend?

Mr. MURRIN. Since I have a microphone, of the points that we have raised in our testimony today and have raised in our reports and sort of a mantra that I have, it would be some of the key detect controls, and within the Department and within many of the agencies, it is really a toss-up which of the key detect controls you would focus on first. But reconciliation processes would be very high on that list of things. If you can get a good subsidiary record listing of all of the assets that you can, reconciling to a total, to the general ledger, and report it in a set of financial records and do some comparisons between the detail and what you actually expect to see, confirming loans or looking for fixed assets, that would be the key item we would focus on.

Ms. LEWIS. I would concur. Focus on the internal control report. While it is a very important goal to achieve a clean financial statement opinion, simultaneously focus and use the internal control report as a blueprint for how you can fix systemic issues. When there are documentation gaps and there are untimely or long times between reconciliations, it leads to problems at the end. You are looking to insert internal controls up front so that you can attempt to prevent those problems coming in at the end.

Ms. JARMON. I would agree with Ms. Lewis and Mr. Murrin. The internal control issues need to be focused on, but I would like to

add that a lot of weaknesses at the Department of Education, and I believe the auditors have always stated, relate to human resource issues and financial systems problems. I know that the Department has had a lot of turnover in its CFO's office. The right people in the office, and proper training of the financial managers, and good understanding and implementation of the system that they have recently purchased are critical.

Mr. ENGEL. Just adding on to what the other witnesses have said, I would probably also add that because of the magnitude of transactions that go through the Department, through its computers, and you are involving payments and everything being accounted for through the computer systems, that it should be emphasizing and making sure that it has appropriate access controls over the computer so that someone cannot access the system and divert funds.

Mr. MOORE. I would tend to look at a control board as was looked at with D.C. When you have a problem which has been as pervasive and as long-term, I think the leadership in terms of the control and accounting functions and that which filters down through the employees would be key to turning it around.

Mr. GREEN. So you would favor some kind of outside board to come in and take control and make the systemic changes?

Mr. MOORE. I am not qualified to answer that question necessarily, but I think that has to be considered. If it is continued and repeated, then clearly it is not getting done within the walls or within the Department itself.

Mr. GREEN. Thank you.

Mr. Chairman, before I turn it over, I would like to ask unanimous consent that all written statements submitted by Members be included for the record.

Mr. HOEKSTRA. Without objection, so ordered. Thank you.

You all talked about the reconciliations and their importance. Has the Department been doing monthly reconciliations with Treasury? Has that started yet?

Ms. LEWIS. I am going to have to get back with you on that. I know when we testified in March, that was certainly the intention. But I must admit I need to get back to you on the record, unless GAO knows for certain.

[The information referred to follows:]

MS. LEWIS RESPONSE TO FREQUENCY OF CASH RECONCILIATIONS QUESTION

According to the Department's Office of the Chief Financial Officer (OCFO), monthly reconciliations were performed starting with the March 2000 data. The Department states that the Treasury Department provides matching data by the 23rd of the following month. The Department also indicates it is in the process of reconciling April 2000 data, and ongoing work is being conducted to reconcile prior year data.

Mr. ENGEL. I believe right now they are being done on a quarterly basis, and I know that they have been working to develop a process—I think they have acquired some software that they are using to try to assist them in their reconciliation process.

Mr. HOEKSTRA. For those not familiar with it, the reconciliation is between Treasury and the Department of Education. There has been an inability to reconcile what the Department of Education says that they wrote checks for and the Treasury Department says

that they have cashed. I am also assuming that if they are moving to a quarterly basis, they are not yet to the point where they are preparing interim financial statements on a quarterly basis. Are they doing that? Have they done that this year?

Ms. LEWIS. It is my understanding from the Department that in June the goal, or plan, is to produce the first interim statements.

Mr. HOEKSTRA. OK. So that would be a 6-month statement.

Ms. LEWIS. It is my understanding that it would run from the first of the fiscal year through the halfway point of the fiscal year, and I believe—if I can make sure that is—by getting back to you to confirm that.

Mr. HOEKSTRA. Thank you.

[The information referred to follows:]

MS. LEWIS RESPONSE TO INTERIM FINANCIAL STATEMENT QUESTION

Yes, thus far, the Department has prepared two interim statements; one for the month of February and one for the month of March. It is our understanding that full interim statements and supporting schedules for the period ending in March 2000 will be delivered to Ernst and Young on June 15 and that information through June 2000 will be delivered in August.

Mr. HOEKSTRA. Ms. Hooley.

Ms. HOOLEY. Yes, thank you, Mr. Chairman.

The question, Mr. Murrin, is for you. Their failure to have a clean opinion on the audit, financial management; not having a clean opinion, does that reflect fraud and mismanagement or just problems with integration of the financial management systems?

Mr. MURRIN. It is an initial indicator of problems with the system. It is not a direct indicator that fraud, waste and abuse is actually occurring.

Ms. HOOLEY. I am just curious. You have done other audits, I am assuming, with other government agencies or outside agencies. How long does it generally take for an organization to come up with all of the tools and put the systems in place that they need to put in place before they can have a clean opinion? Just give me an estimate of how long this should take, this whole process.

Mr. MURRIN. You know, it is really difficult to say. It depends on the management of the organization, the resources that the organization has and can devote to a particular problem, and really the process that is used to address those recommendations over time. I can't address that on average.

Ms. JARMON. GAO does the governmentwide audit, and this year when we testified on March 31 on the results of the fiscal year 1999 24 CFO Act agencies, 13 of the 24 had received clean audit reports for fiscal year 1999. Most of those agencies were not required to do agencywide audits for the first time until fiscal year 1996. So 13 of the 24, and I just heard yesterday that the Department of Interior got a clean opinion, and so now it is 14 of the 24 have clean opinions.

Ms. HOOLEY. Do we have enough personnel and resources to make this happen as quickly as we would like them to do this; do you know?

Ms. JARMON. It is probably a different answer for different departments. Some departments are probably doing fine. There are some which are having more problems with personnel and human resources. So it is different on a department-by-department basis.

Ms. HOOLEY. How does this audit compare to the previous audits?

Mr. MURRIN. The 1999 audit, which had four statements that had qualifications and one disclaimer, was issued on a more timely basis than prior audits. The audit for the immediately preceding year, for 1998, had a disclaimer on all of the statements. And the audit for 1997, I believe, was one of unqualified on all of the statements.

Ms. HOOLEY. What are some of the improvements that the Department has made in management of the student loan program, which I know has been troublesome, and are the default rates going up, down? What is happening in that area with student loans?

Ms. LEWIS. I can indicate what I know. Obviously the Department would be in a position to speak particularly to some of the issues.

For example, as I mentioned in my testimony, in the area of death and disability discharges, the regulations changed around 1995 to basically allow persons who had a discharge of their loan obligation to reapply for loans.

It is my understanding that the Department noticed a spike in those types of borrowers and asked the Office of Inspector General to conduct an audit to review the situation, which involved the match of NSLDS data and Social Security Administration data. The OIG looked at discharges in a certain time period and subsequently looked at the earnings date from Social Security to see if persons who were presumably dead or permanently and totally disabled were showing through the Social Security records that they were earning income. And we did find matches. In other words, a population that showed income earnings after the discharge.

Again, the Department requested that work. We issued the results in June 1999, just before I got to the Department, and made some very specific recommendations to change the form, making the recordkeeping so that they needed to show that there was actually a doctor with a medical license number filling out the form, and requiring an original or certified copy of the death certificate. Those recommendations were implemented.

We have worked with the Department and with the guaranty agencies to try to find particulars to do the match. Part of the agreement for the match was that there would be no particular indicators—no particular information that came out of the match to identify a particular person. So we have had to go back and do additional work. That would be one case I am personally familiar with where significant improvement, tightening of controls, did take place.

Ms. HOOLEY. And have the default rates now gone down?

Ms. LEWIS. That was a borrower situation, death and disability. So they are not related.

Ms. HOOLEY. But there has been a tightening?

Ms. LEWIS. In that area, in death and disability, yes.

Ms. HOOLEY. Thank you.

Mr. HOEKSTRA. Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman. It has been mentioned trying to get some language together for the IRS to share informa-

tion with the Department of Education. I think we better be careful with such requirements or mandates, particularly for an agency that can't conduct its own business. The information that is reported to the IRS is very confidential. It is not shared with anyone, not even a Member of Congress much less an agency which is under the authorization of a Member of Congress. Does the Department of Education write checks, or does the Treasury Department?

Ms. LEWIS. I'm sorry?

Mr. COLLINS. Does the Department of Education actually write checks, or does the Treasury Department pay the bills for the Department of Education?

Ms. LEWIS. There definitely is a function at the Department of Education where checks are written. For example, reimbursement checks for travel is one example where checks are written and certain vendors are paid with checks. And then there are many, many other transactions that take place through the Treasury Department mechanisms.

Mr. COLLINS. Do you have a breakdown in dollars, one versus the other?

Ms. LEWIS. No, sir, I'm sorry. I don't.

[The information referred to follows:]

MS. LEWIS RESPONSE TO QUESTION ON WHETHER OR NOT THE DEPARTMENT WRITES CHECKS

The majority of funds go out directly from the Federal Reserve, at the Department's direction via wire transfers or Treasury checks. The Department does issue checks for employee reimbursements, payments to field readers, payment of the centrally billed travel account and the purchase of supplies when purchase cards are not feasible. According to the Department, in fiscal year 1999, approximately 22,700 third party draft checks were issued, totaling \$25 million or less than 1 percent of the Department's expenditures for the year.

Mr. COLLINS. Who would audit that, you or the GAO?

Ms. LEWIS. As part of the financial statement audit, which looks at large transactions and five particular statements that the Department prepares, there is information in those statements that the currently engaged auditor, Ernst & Young, would look at.

Mr. COLLINS. Do we do a cash flow chart, operating statement, balance sheet or all?

Ms. LEWIS. I will ask Mr. Murrin to explain the financial statement.

Mr. MURRIN. There are five statements that the Department of Education prepares which we audit. Of the statements you are referring to, there are statements that do reflect, in effect, the cash transactions, the cash that goes out the door to grantees and others.

Mr. COLLINS. That is part of your operating statement?

Mr. MURRIN. Correct.

Mr. COLLINS. Income and expenses?

Mr. MURRIN. A parallel, yes.

Mr. ENGEL. Regarding the disbursement authority, the Department of Education does have disbursing authority to write their own checks. Unfortunately, I don't know the volume of checks they write on their own, which then still would clear through the Federal Reserve and Treasury would get involved, versus the checks where they send basically a tape of what they want to have dis-

bursed, which is what a lot of agencies do, to Treasury, and then Treasury actually prepares the checks and sends them out.

Mr. COLLINS. I know that Social Security checks are prepared by Treasury.

How many employees are in the Department of Education when it comes to the accounting department?

Ms. LEWIS. I don't know. I will have to get back with you on that. The Department would have the answer. I don't have it in my head.

[The information referred to follows:]

MS. LEWIS RESPONSE TO QUESTION ABOUT THE DEPARTMENT'S ACCOUNTING STAFF

According to OCFO, its ceiling is 87 FTE and 74 FTE are currently on-board.

Mr. COLLINS. OK. In the loan forgiveness, that seems to be an area of problem. How do you verify disability?

Ms. LEWIS. There is a form. It is a governmentwide approved form that is sent to the individual who is seeking a discharge for a permanent and total disability, and it is the obligation of that individual to submit that, either to the guaranty agency or to the Department depending on which type of loan they completed. And, for example, when we did the audit, one of the things that the auditors did was go to the guaranty agency and look at some of those forms. Some of them were illegible. There did not seem to be a lot of controls. There was no box for ensuring that there was a medical license number. And basically it appeared that the information was accepted at face value, which is why we made the recommendations that that process should be tightened up.

The form was rewritten. OMB approved it. I think the new form took effect in January. And so now there is more information required on the form. Also the guaranty agencies were issued what is called a "Dear Partner" letter in November. The Department issued the letter to give more specific guidance to the guaranty agencies when they saw an application for a discharge and they had questions about it, specifically whom in the Department they could speak to, what their ability would be to question and to go back, and what requirements were in place. So there have been some tightening of the procedures.

Mr. COLLINS. Well, I noticed that you cross-check with Social Security on death certificates.

Ms. LEWIS. Subsequently, we look to do a match with the Social Security Death Index because in the match in the original audit that we did, we were not in a position to use any individual data to follow up. While we got information from the match indicating that there were persons who appeared to be earning income after a death, there was no name or Social Security number. That was part of the agreement for the match. So we have looked to go with the Social Security Administration to have a match.

There is a law, I think it is called the Computer Matching and Privacy Act, which was passed in the late 1980's by Congress to set the requirements any time government agencies do matches. There is also something called the Data Integrity Board which exists within each agency, and there are specific requirements for that which have to be met by each agency, as they may seek to match

some of the data that they have in their systems with data from another agency.

Mr. COLLINS. Would it not be true, though, that most people who would have a permanent disability would also file for disability insurance, for Social Security, and you could cross-check that with Social Security also?

Ms. LEWIS. We did make a recommendation, as part of the audit, for the Department to consider working with Social Security's processes and information since it appeared that they had a model that might provide some helpful guidance. That was one of the recommendations that the Department did not—I think it was the recommendation that the Department did not agree with in terms of piggybacking onto the Social Security system that is already in place. This is under negotiated rulemaking.

All of the recommendations that are implemented, proposed and then finalized as part of the Higher Education Act go through a process of negotiated rulemaking. So procedures and requirements related to death and disability discharges are currently under negotiation with the public as part of negotiated rulemaking. Any additional tightening or other changes to the system, whether it be the definition or requirements to reinstate loans should someone ultimately be determined to have inappropriately been given a discharge, those are all matters that are being discussed with the public as part of the negotiated rulemaking process. This is my understanding from information I have from the Department.

Mr. COLLINS. Well, I find it odd that they would cross-check to see if a person is still alive, but don't cross-check to see if they are drawing disability. Something doesn't come together here. When you have a department that can't account for all of its money, I am not surprised.

Let me ask you one other thing. In your investigation did you find the slack in the operation in career employees or appointees?

Ms. LEWIS. The Telecommunications Specialist is a—I believe—is a career employee. But obviously I am very much mindful that the Justice Department has indicated which aspects of the investigation we can speak about, which have basically been made public through the plea agreement with Mr. Sweeney and is from what I formed my testimony. The Telecommunications Specialist to whom I referenced was a career employee.

Mr. COLLINS. He was one out of how many?

Ms. LEWIS. I am not at liberty to say.

Mr. HOEKSTRA. I believe public reports indicate that there are six or seven additional employees from the Department.

Ms. LEWIS. There are five other employees who have been suspended without pay, and one is on administrative leave that is proposed to be suspended without pay. You are correct, Mr. Chairman.

Mr. COLLINS. Let me just finish with one more comment. It appears when it gets down to the fact that you can't account for all of the checks that they are writing, that they are of the opinion that as long as they have checks, they have money. Thank you.

Mr. HOEKSTRA. Just a couple of questions. I am glad we are doing this in the Budget Committee because I think there are some things that we can share from the Education and the Workforce Committee. One thing that kind of drives a little bit of our frustra-

tion on this is the theft ring or the embezzlement, whatever we want to call it, started when, at least that we know about, the earliest that we know about?

Ms. LEWIS. We have looked back at records to the beginning of 1997.

Mr. HOEKSTRA. So it is something that went on for potentially 2½ to 3 years. The duplicative payments issue first came up when; again, that we are aware of? I believe Lockheed was going to testify last week had a duplicative payment back from when?

Ms. LEWIS. From information from the Department, it is my understanding that there are at least nine instances of duplicative payments. That is, nine occasions when it happened. Within that there could be a number of either vendors or grantees.

Mr. HOEKSTRA. The first one occurring?

Ms. LEWIS. I think in fiscal year 1998, according to information that we have gotten from the Department—1998, 1999 and 2000.

Mr. HOEKSTRA. And the last one was as recent as January of 2000. There was a payment of \$5.9 million in January of 2000, and there were 51 duplicative payments or 51 schools that were affected in December?

Ms. LEWIS. The information that I have shows four instances involving grantees or SFA schools totaling approximately \$150 million in fiscal year 2000. I can look more specifically.

Mr. HOEKSTRA. How much money for duplicative payments?

Ms. LEWIS. From the Department for fiscal year 2000, four instances involving either grantees or SFA schools totaling \$150 million.

Mr. HOEKSTRA. Wow. That is new information; \$150 million in duplicative payments this year. OK. This has been an ongoing problem. That number shows no indication of subsiding.

The third thing is the grantback account, there has been some talk about that, and I think in the report that you are going to be issuing, the money that actually went back in the grantback account, that tied directly to the purpose of the grantback account, is less than 10 percent, right?

Mr. ENGEL. The account was established in 1991. They started to record adjustment activity, the suspense activity in 1993. Every year since 1993, the actual balance related to what the account was set up for was less than 5 percent for every year thereafter.

Mr. HOEKSTRA. Before you said a lot of money had to do with grants, but specifically what that account was set up for, only 5 percent of the funds could be documented as being in that fund specifically for the purpose that the fund was set up for.

Mr. ENGEL. That is true.

Mr. HOEKSTRA. And that started in 1991.

I think the frustrating thing for us on the Education and the Workforce Committee, and I hope that those frustrations are shared on the Budget Committee, these are not new problems. The duplicative payments have been going since at least 1998, the grantback problem since 1993. Depending on your definition, it might have been gone back to 1991. These are systemic problems over a long period of time and not just one-time occurrences. I think that is the frustrating thing that we can't get a handle on that.

And I think, with the check-dispensing authority of the Department, the Department of Education has a different kind of relationship than a number of the other agencies have with Treasury, correct?

Mr. ENGEL. That is correct.

Mr. HOEKSTRA. And that allows a greater degree of autonomy in spending and issuing checks?

Mr. ENGEL. There are other agencies, Defense, but you are right, the majority of the agencies do not write their own checks.

Mr. HOEKSTRA. Ms. Lewis.

Ms. LEWIS. Just looking again, it is our understanding from information provided that there were nine instances over the three fiscal years. All of the money has been returned of the amounts identified as duplicative payments, except there is continuing disagreement about approximately \$44,000 involving two vendors. We have contacted the Office of General Counsel to ask what happens now if there is continuing disagreement, what steps—to bring to the General Counsel's attention.

You had previously mentioned, Mr. Chairman, some open audit recommendations that we testified to at the March hearing. As you know, we have been working on these open audit recommendations. The Department provides a corrective action plan. Just for the record, the total for fiscal years 1995 to 1999 was 139 recommendations. At present there are 67 open, 72 closed; 46 of the 67 are nonrepetitive. So we are also in a dialogue about that, but just to update that for the record.

Mr. HOEKSTRA. I just want to say one more thing. I am not worried about the duplicative payments that we found where we got the money back. Once we find them and go back to those vendors or schools and ask for our money back, I would expect to get it. What concerns me are the ones that we may not have found.

Ms. LEWIS. Since we spoke on this subject in November, my office has obtained GAPS data, for the initial 3-month period that the data went into GAPS. We have also been working with the Federal Reserve to acquire other data. For a period from mid-1998 through mid-1999, my auditors are looking to see if there are any other anomalies in the GAPS system that might be duplicative payments or anything else. We are still in the process of conducting that work.

Mr. HOEKSTRA. Ms. Rivers.

Ms. RIVERS. Thank you, Mr. Chair. I have a couple of questions.

Mr. Murrin, in the time that you have done the audits and made recommendations to the Department of Education, have you encountered any unwillingness on the part of the Department to accept your recommendations, or have you come across any specific instances where the Department has been obstinate or deliberately noncompliant toward recommendations?

Mr. MURRIN. To my knowledge, no.

Ms. RIVERS. Ms. Lewis, you mentioned an investigation you did was because of a Department of Education referral. So as we look through your testimony—

Ms. LEWIS. That was our audit work, yes.

Ms. RIVERS. When we use prosecutions pursued or evidences of wrongdoing, those can be the result of your internal investigation,

or it can come from the Department of Education finding problems on its own and referring them to you?

Ms. LEWIS. We do have a hotline function, for any individual, the public or within the Department. And, as in any OIG office, that is a very important part of any internal control system. We also get referrals from offices within the Department and from the General Counsel's office for matters for us to follow up on.

Ms. RIVERS. Have you encountered any specific instances of reluctance in pursuing an investigation when there is evidence of criminal activity or any unwillingness to prosecute once information has come to the attention of the agency?

Ms. LEWIS. We work with the Justice Department, mainly the local U.S. attorney's offices, and we, along with very well-trained investigators and their agent-in-charge, will present their findings to date and the attorney's office will determine if they feel that the case should be opened.

In our experience we have had cooperation from the Department, the leadership of the Department and managers in the Department in terms of providing us information to help us do our investigation, and then understanding that our requests to follow up with more specific information or additional material oftentimes comes at the direction of an assistant U.S. attorney.

Ms. RIVERS. Given what we know about the personnel problems within the Department and their software difficulties over time, do you think that the Department has given a less than good faith effort to comply with your recommendations?

Ms. LEWIS. I have been there since last June and had a very difficult experience in terms of the 1998 audit. That was not a timely audit. The Department—everyone started late. The financial statements were provided late. This was Ernst & Young's first year. The Department, OIG auditors and Ernst & Young worked to try to bring that to closure with a result of a disclaimer, and there are many lessons to be learned from that. This was why we very much set the absolute unbreakable goal of ensuring that for the very first time, the Department would achieve its audit for 1999 in a timely fashion, and it did so.

Ms. RIVERS. I am interested in whether or not their efforts represented less than a good faith attempt to comply with what you were recommending. Did you feel that they were unwilling or being obstinate or being noncompliant deliberately?

Ms. LEWIS. I have no indication of any deliberate noncompliance. We push very hard to see that recommendations that we feel are appropriate, that come out of our audit work or from Ernst & Young, such as the 1994 document that the Chairman spoke of in his opening statement, was indeed a document that arose from some information we had from an investigation. It is called an IPAR. So it is important, but the property management issues have been on the Department's Federal Managers' Financial Integrity Act list since 1994. And it is very important that efforts that would yield results take place. We are living in the era of results.

Ms. RIVERS. Do you think that results have not been achieved because of bad faith on the part of the Department?

Ms. LEWIS. No, I don't have any indication of bad faith or willful noncompliance, but in large part it is the importance of getting to the result.

Ms. RIVERS. Ms. Jarmon or Mr. Engel, do you have any experience which indicates that the Department was unwilling or non-compliant with your recommendations as they have moved through this process with software?

Ms. JARMON. No, we have not had any indications where they have been willfully noncompliant, but it has taken some time. Many of the recommendations have been repeated from year to year since the first audit.

Ms. RIVERS. Thank you, Mr. Chairman.

Mr. HOEKSTRA. Mr. Collins.

Mr. COLLINS. I just want to re-ask one of my questions.

Did you find the slack in the Department in career or appointees? You gave an example of a career who had actually committed a felony there, but is the overall administration of the Department, down to each department within the Agency, is it run by career or appointees?

Ms. LEWIS. It differs across the offices. There are some offices that are headed by Assistant Secretaries who are, as you know, Presidential, Senate-confirmed, political appointees and then there are some offices that are headed by career appointees.

The organization has changed over time. Years ago the CFO and CIO offices were merged with one individual running the office. Those offices are now currently broken out, and there are two career executives running those offices. So over time the structure changes.

As Mr. Chairman reminded me, the seven individuals who were Department of Education employees who have been identified for suspension without pay, and I just need to clarify, there are allegations concerning the Telecommunications Specialist. The Telecommunications Specialist has not been found guilty or pled to any crime, so I just wanted, Mr. Collins, to make that clear, if I didn't make that clear before. The person has been identified and is being investigated, but has not pled or been convicted of any Federal or other crime.

But the seven are employees in the ranks—were previously employees in the ranks of the Department, in the staff ranks.

Mr. COLLINS. I think it is important to know who is doing the best job, who is administering the best oversight. Is it career or appointees? Then you can make a determination how you want to set your different departments up.

Ms. LEWIS. We are taking all of the information that we have from the investigation, and we have asked some of our auditors to go in and do some follow-on looks, such as at other contracts and other issues that have arisen. We are going to bundle that information up and put it together, analyze it, and we are going to be presenting it to the current head the chief information officer, the new head—he arrived last September—in terms of identifying any lessons learned and our recommendations for internal control improvements that need to be made.

And I will, Mr. Collins, make sure that all of the information that we have there is shared appropriately with the rest of the De-

partment, very senior officials, to try to prevent other mistakes. It is the very process that we are doing now on third-party checks and the purchase cards. We are going office by office, and we are doing internal control testing based on GAO's new standards, and we are meeting with the Assistant Secretary or the head of the office, and we are presenting them with our findings. We will also do a cap report. There will be about 13 or 14 products. As we go into an office, we are also identifying other areas to follow up on. So the office-by-office approach is one that we are looking to adopt, Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman.

Mr. HOEKSTRA. I thank the witnesses for being here today. With that, the task force will be adjourned.

[Whereupon, at 11:52 a.m., the task force was adjourned.]